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SUBJECT: THE UNITED NATIONS AND THE ECONOMY OF IRAQ

REF: STATE 29254

¶11. (U) Summary: This cable provides background, analysis, and status on the programs and activities of the United Nations (UN), UN agencies and the UN Assistance Mission in Iraq (UNAMI) as they relate to the economy of Iraq. This review is provided in support of the ongoing activities of USUN and Embassy Baghdad. End Summary.

¶12. (U) The UN Security Council, acting under Chapter VII of the UN Charter, passed resolutions which established many, but not all, of the programs discussed in this cable. Examples include the Oil for Food (OFF) Program, the UN Compensation Claims Commission (UNCC), and the arrangements (including immunities from legal attachments) for the Development Fund for Iraq (DFI) and Iraqi oil and gas revenues. In Article 25 of the U.S.-Iraq Security Agreement signed on November 17, 2008, the U.S. pledged to use its "best efforts" to help Iraq take the steps necessary to restore its standing in the international community to where it was before Saddam's invasion of Kuwait in 1990 (from UNSCR 661 onward). Background and guidance related specifically to helping Iraq restore its legal and international standing are being prepared separately. This cable focuses on economic issues in Iraq as they relate to UN activities under UN Security Council (UNSC) mandates.

The UN's Economic Partnership with the New Iraq

¶13. (U) Background: The UN and Iraq have built a strong and multi-faceted economic partnership that has continued to grow despite two horrific bombings of UNAMI's headquarters in **¶2003**. The August 19 bombing killed the Secretary General's Special Representative to Iraq, Sergio de Mello, and 21 others including his top staff. A second bombing on September 22 injured dozens and led to the withdrawal of more than 600 UN staff from Iraq.

¶14. (U) UN Presence in Iraq: UNAMI's ambitious agenda for economic, humanitarian, electoral and political assistance generally aligns with U.S. interests. The United States would welcome increases in UNAMI staffing in Iraq, but UNAMI's current compound in Baghdad can accommodate only 170 and head count is already up to 160. Construction has not yet begun on UNAMI's new compound (adjacent to the new U.S. Embassy compound). Moreover, the freedom of movement UN staff in Iraq is constrained by UN security policy - which assigns Iraq its lowest security ranking. This policy is up for review in April and should take account of improvements in security conditions in Baghdad and many of the provinces where the UN is active.

¶15. (U) IMF Implications: For years, the U.S. has urged the IMF to establish a Resident Representative (ResRep) office in Baghdad, as the IMF already has in Kabul. By specifically reserving an IMF slot under its Baghdad personnel cap, the UN can help clear the way for the U.S. IMF Executive Director to

push the IMF to consult with the UN about establishing a ResRep office in Baghdad. Despite space constraints at the current UNAMI compound, there would appear to be room for at least one IMF representative. The GOI has expressed its desire to have a strong working relationship with the IMF, as the program with the IMF ended in March. An IMF ResRep is much needed in Baghdad to help Iraq manage its fiscal situation and undertake much needed economic reforms.

16. (SBU) International Reconstruction Fund Facility for Iraq (IRFFI): At the 2003 Madrid Conference for Iraq, international donors (excluding the U.S.) pledged USD 4.5 billion in financial assistance to Iraq. The IRFFI was established in February 2004 to provide a multi-lateral mechanism for collecting donor deposits and administering assistance projects. Two IRFFI Iraq Trust Funds (ITF) were established - one operated by the World Bank and the other by the UN Development Group (UNDG). The UNDG is a collection of UN operating agencies such as the UNDP and UNESCO. Since its inception, the UN-ITF has collected USD 1.35 billion in donor deposits and committed all but about USD 200-300 million to reconstruction and recovery projects in Iraq. The UNDG headquarters and most of its staff are based in Amman. Operating from Amman adds to IRFFI's costs and hampers project implementation.

17. (U) In Naples on February 18, the IRFFI Donors' Committee
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(which oversees IRFFI policy) decided that the IRFFI ITFs would stop collecting new donor deposits by the end of 2009, stop entering into new contracts funded by the ITFs by the end of 2010 and complete the contracts and terminate all activities by the end of 2013. SCANTEAM, a Norwegian consulting firm that specializes in evaluating multi-lateral donor funds, recently gave UNDG good marks for its contributions to improving the life of the people of Iraq, although it cited some "uneven" performance. In its "Concept Note" for ending the IRFFI, the UNDG recommended that any remaining UN-ITF resources be directed to fund the ongoing operations of UN agencies functioning under UNAMI and some small technical assistance projects. The IRFFI has largely accomplished its mission and the major donors to the IRFFI (e.g., the EU) are now oriented toward conducting their assistance activities on a bilateral basis or working directly with individual UN agencies - no longer requiring the IRFFI's multilateral mechanisms. In principle, the U.S. could concur in this recommendation as a way to support UNAMI's presence and programs, although before making such a decision the UN will need to provide the U.S. and the other IRFFI donors with more specific information about how it would use any remaining UN-ITF resources.

18. (SBU) UN Agency Activities and Organization:
Notwithstanding SCANTEAM's generally positive report, the organization and management of the UN agencies serving Iraq from Amman have often been unstable, ineffective and expensive. At the February 2007 Donors' Committee meeting, Iraq and some donors strongly criticized UNDG's organization and operations, pointed to a lack of transparency in UNDG administered projects, and demanded changes on threat of dissolving the IRFFI altogether. The UNDG changed its management and reorganized itself to reflect Iraqi and donor preferences. To recast the foundations of their relationship, UNAMI recommended and Iraq accepted to adhere to the principles of the Paris Declaration on Aid Effectiveness, which emphasizes host country ownership of the assistance process along with transparency and accountability. In line with these principles, UNAMI and the GOI undertook a formal "Joint Strategy for Economic Assistance Through 2011" in August 2008. Since then, there has been a marked improvement in UNAMI-GOI economic cooperation, and UNAMI recently stepped forward to play a leading role in coordinating the activities of all international donors through monthly meetings of new Iraq Partners Forum (IPF), which it co-chairs with the GOI and

World Bank. IPF meetings are held in Baghdad and Iraq's Ministry of Planning and Development Cooperation is represented.

¶9. (SBU) In spite of these UNAMI-led improvements in Baghdad, concerns remain about the coherence and reliability of particular Amman-based UN agencies. These problems are evident in the poor execution by the United Nations Development Program (UNDP) of two grants from the U.S. State Department Office of Iraq Assistance for anti-corruption, and one grant for the development of Al-Anbar province.

Reflecting poor management, these programs have fallen short of meeting nearly all of the normal requirements associated with grant execution - from adequately defining, planning and staffing activities to providing timely progress reports. The same problems have affected projects funded by the IRFFI and bi-laterally by other donors. UN Ambassador David Shearer (Deputy Special Representative of the Secretary General - DSRSG - for economic and humanitarian affairs) has established a new office in Amman and is working to rectify these problems. The UN must work harder to address the problems that the Amman-based UN agencies have with weak management and poor project execution.

¶10. (U) The International Compact with Iraq (ICI): In July, 2006 UNSYG Kofi Annan and Prime Minister Maliki announced that the UN and the GOI would lead a joint effort to formulate and launch a new International Compact with Iraq loosely modeled on the International Compact for Afghanistan.

The ICI was formally launched at Sharm El-Sheikh on May 3, 2007 at a Ministerial attended by more than 70 countries and international organizations. Under the Compact, Iraq pledges to implement comprehensive programs for political reconciliation, security and economic initiatives and reforms aimed at making Iraq economically self-sufficient by 2012. In return, Iraq's ICI partners pledge to support Iraq in achieving these goals with financial and technical assistance, soft loans, debt relief and private sector trade and investment. At the first annual ICI Ministerial Review in Stockholm on May 29, 2008, which was attended by more than 90 countries and organizations, Iraq reported substantial

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progress meeting its ICI goals, while the ICI partners reported more than \$300 million in new assistance, \$2 billion in new soft loans and \$20 billion in debt reduction. The ICI provides the guiding goals and priorities and common points of reference for assistance activities of the IRFFI, UN, World Bank, EU, U.S. (in the new Iraq-U.S. Strategic Framework Agreement), and Iraq's other major bi-lateral donors and partners.

¶11. (SBU) Discussions are underway about where and when to hold the second annual ICI Ministerial Review meeting. Participants at the Stockholm Ministerial decided that the meeting should be in Baghdad in May 2009 but an increasing number of countries have expressed reservations in view of the logistical difficulties (the lack of the flights, hotels, communications and personal security options that are appropriate for ministers). The ICI Secretariat cannot get the meeting organized in this time frame. A May 2009 date is too soon for Iraq's officials and their advisers to make proper preparations. Alternative suggestions are to hold a working level preparatory meeting in May to discuss the agenda and format of the Ministerial, followed either by a large ICI meeting at a major capital later in the summer, or a smaller meeting in Baghdad (perhaps with most ministers flying in and out the same day). Rushing the preparations could have unwanted negative effects.

¶12. (U) The second annual ICI Ministerial Review meeting would not be lacking for substantive objectives. The ICI requires updating in view of the large number of benchmarks in the original document, changed fiscal realities, and that the ICI objectives should be re-prioritized to take account of GOI's latest development objectives and the new global

realities (for example for reorganizing its oil sector and improving its business and investment regimes). ICI implementation has not gone as planned; the thematic working groups and consultations with international partners in the original ICI document have not materialized as envisaged. Instead, the GOI has developed its own methods and approaches. The ICI partners need to know more about how these methods and approaches are working.

¶13. (U) In line with Iraq's goal for achieving greater economic integration within its region and the world, a special ICI working group for regional economic integration could be established in support of the Neighbors process and other regional coordination and integration efforts. If the event is held in a major capital, the Ministerial could be followed the day after by an event for business people and investors to create some excitement about opportunities in Iraq and encourage GOI to follow-through on improving its trade and investment policies.

Saddam-Era Legacy Issues

¶14. (U) Iraq faces several challenges having substantial potential to affect the economy and complicate restoring Iraq's legal and international standing to its pre-First Gulf War status.

¶15. (U) The Development Fund for Iraq (DFI): UNSCR 1483 established the DFI to collect all of Iraq's Saddam-era financial assets from around the world and receive, hold and disburse from its ongoing oil and gas revenue streams. The actual DFI accounts reside at the U.S. Federal Reserve Bank of New York. They are owned by the Ministry of Finance and operated by the Central Bank of Iraq. UNSCR 1483 and subsequent resolutions (most recently UNSCR 1859 of December 2008) established the requirements to deposit Iraq's oil and gas revenues into the DFI after deducting 5 percent for the UNCC, maintain oversight by the International Monitoring and Advisory Board (IAMB), and provide immunities against legal actions (attachments and seizures) of these financial holdings and flows in order to ensure that these funds will be available for reconstruction.

¶16. (SBU) We do not want Iraq to continue rolling-over the UN DFI immunities, and another roll-over attempt when the current UN immunities expire at the end of 2009 could encounter resistance from within the UNSC. Since these exceptional and temporary immunities were established, the USG strategy has been to help alleviate Iraq's need for the immunities through formal debt reduction agreements, settlements of commercial claims, and by resolving the claims litigation for deaths and injuries from Saddam's terrorism and torture. All Paris Club and many non-Paris Club official and commercial creditors have reached formal debt reduction agreements or claims settlements - substantially reducing

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threats of attachment from those sources.

¶17. (SBU) To address the claims of American victims of terrorism, L, NEA and representatives from other concerned agencies met recently with Prime Minister Maliki's legal adviser. In those meetings, the U.S. team described the claims and cases, discussed the U.S. legal framework in which they arose, and explored some options for approaches to resolving the claims. Key elements of any option the US and Iraq may pursue are likely to include: (1) Iraq's payment of a sum of money sufficient to compensate victims within the scope of any agreement (including the Gulf War POW/human shield cases that have attracted Congressional attention); (2) U.S. extinguishment of known and possible future claims related to the Saddam-era government; and (3) Congressional action to restore Iraq's immunity from such claims in the U.S. so that its immunity status is the same as that of other U.S. friends and allies. The Iraqi legal adviser plans to return to Washington in April or May accompanied by a

delegation representing the concerned ministries empowered to negotiate a settlement package.

¶18. (U) Oil-for-Food (OFF): Although no new oil proceeds were allocated to the OFF program after Saddam's ouster, many contracts remained and the OFF program did not formally end until December 31, 2007. However, about USD 190 million of OFF contracts written during the Saddam era remain unsettled. The current procedures for settlement involve obtaining sign-offs from the Iraqi ministries that initiated the contracts - a process that has been fraught with delays and prone to corruption from the concerned Iraqi officials demanding kick-backs for their approvals. To rectify the problem, the P-5 have signed a letter instructing that the outstanding contracts should all be settled within 45 days except if Iraq raises specific objections and has evidence to substantiate their objections. The Government of Costa Rica objected to this action over concerns that payment may be made to companies that did not fulfill their obligations. Demarches have been delivered in San Jose and New York urging Costa Rica to withdraw its objections. The Iraqis have also urged against issuing the letter, promising fresh efforts to expedite settlements - but to no effect so far.

¶19. (SBU) UNCC: Initial claims for compensation for Iraq's role in the First Gulf War exceeded USD 160 billion. Through rigorous vetting the UNCC qualified approximately USD 52.4 billion for payment. All but USD 25.5 billion has been paid - of which USD 1.5 billion is for environmental restoration and USD 24 billion is owed to oil-sector entities of the Government of Kuwait. Pursuant to UNSCR 1483, 5 percent of all Iraqi oil and gas revenues are diverted to the UNCC Compensation Fund created by UNSCR 687 to pay claims. Given its budget difficulties, Iraq wants its contribution to be reduced to 1 percent, and for some of Kuwait's claims to be canceled altogether. The USG has repeatedly urged Iraq to meet with Kuwait under UNCC auspices to negotiate settlement of the oil-sector awards, but Iraq has so far failed to agree on a date to meet. The next UNCC meeting will be April 28-29, and we are urging Iraq to send a duly authorized representative to negotiate with Kuwait. (Reftel State 29254 is a demarche cable requesting Embassy-Baghdad's assistance in urging Iraq to send duly authorized representatives to negotiate with Kuwait alongside the upcoming UNCC meeting.)

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